CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 1, 1997

S. 1193
Aviation Insurance Reauthorization Act of 1997

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on September 23, 1997

S. 1193 would amend Title 49 of the U.S. Code to extend from September 30, 1997, to December 31, 1998, the authorization of the aviation insurance program administered by the Federal Aviation Administration (FAA). CBO estimates that enacting the bill would probably not have any significant impact on the federal budget over the 1998-2002 period. Because the bill could affect direct spending, pay-as-you-go procedures would apply. S. 1193 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 and would not affect the budgets of state, local, or tribal governments.

The aviation insurance program provides insurance coverage for aircraft operations that are deemed essential to the foreign policy interests of the United States when commercial insurance is unavailable on reasonable terms. The program is financed through the Aviation Insurance Revolving Fund, which is supported by premiums paid for coverage (for "premium insurance"), one-time binder fees paid by the airlines (for "nonpremium insurance"), appropriated funds, and interest on investments in U.S. Treasury securities. From 1959 though March 1997, the fund accumulated $65 million in revenues and paid out a total of $151,000 in claims.

Nonpremium insurance, which accounts for about 99 percent of all aviation insurance, is for U.S. airlines that are providing contract services for federal agencies that have indemnification agreements with the Department of Transportation (DOT). Currently only the Department of Defense (DoD) and the State Department have such agreements with DOT. In the event of a loss, DoD or the State Department would reimburse the FAA for the insurance claims it would have to pay to the airlines. Since 1975, there have been approximately 5,400 flights covered by the program.

Premium insurance is provided to U.S. or foreign airlines for regularly scheduled commercial or charter service. Airlines pay a premium to the FAA for the coverage, similar to a normal insurance policy. Both types of insurance policies cover both hull loss and liability.

Based on information from DOT, CBO estimates that it is unlikely that enacting H.R. 2036 would have a significant impact on the federal budget over the next five years. The bill could affect federal spending if new claims occur from extending the insurance program. While the amount of new spending could be large, historical experience suggests that events that would necessitate such spending are very rare.

The CBO staff contacts for this estimate are Rachel Forward and Clare Doherty. The estimate was approved by Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.